

GAO

Report to the Chairman, Committee on
Homeland Security and Governmental
Affairs, U.S. Senate

February 2005

CONTRACT MANAGEMENT

Opportunities to Improve Pricing of GSA Multiple Award Schedules Contracts



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-05-229](#), a report to Chairman, Senate Homeland Security and Governmental Affairs Committee

Why GAO Did This Study

Federal agencies can directly purchase more than 8 million commercial products and services through the General Services Administration's (GSA) multiple award schedules (MAS) contracts. Over the past 10 years, MAS contract sales have increased dramatically—with sales jumping from \$4 billion to \$32 billion.

In addition to simplifying the procurement process, the MAS program is designed to take advantage of the government's significant aggregate buying power. While GSA seeks to negotiate best pricing for its MAS contracts by analyzing vendor-provided information—such as discounts given to other customers and recent sales data for the same or similar items—past reports have found that GSA has not always used pricing tools effectively and that management controls for better ensuring fair and reasonable pricing had been reduced.

This report discusses GSA's process for negotiating most favored customer prices for MAS contracts and its efforts to improve the overall quality of negotiations.

What GAO Recommends

GAO is making four recommendations aimed at better ensuring that appropriate tools are used effectively to negotiate MAS contract prices and at increasing the effectiveness of GSA's program to measure and improve its contract negotiations. GSA agreed with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-05-229.

To view the full product, including the scope and methodology, click on the link above. For more information, contact cooperd@gao.gov.

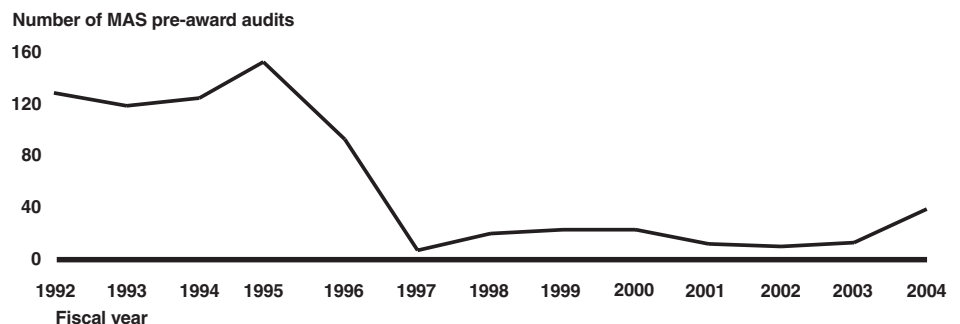
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What GAO Found

Contract negotiators at the four MAS acquisition centers that GAO reviewed use a variety of tools for obtaining most favored customer pricing—that is, the prices vendors offer their best customers. However, the GAO analysis of GSA's review of selected fiscal year 2004 MAS contract files found that nearly 60 percent lacked the documentation needed to establish clearly that the prices were effectively negotiated. Specifically, the contract documentation did not establish that negotiated prices were based on accurate, complete, and current vendor information; adequate price analyses; and reasonable price negotiations. GSA's efforts to ensure most favored customer pricing have been hindered by the significant decline in the use of pre-award and postaward audits of pre-award pricing information, two independent pricing tools that have helped GSA avoid or recover hundreds of millions of dollars in excessive pricing. In fiscal year 1995, GSA conducted 154 pre-award audits; by 2004 the number of pre-award audits fell to 40. Postaward audits—which resulted in an average annual recovery of \$18 million in the early 1990s—were discontinued in 1997 when GSA revised its MAS contract audit policies to increase the use of pre-award audits—an increase that has not materialized.

MAS Pre-Award Audits, Fiscal Years 1992 through 2004



Source: GSA Inspector General data.

In March 2003, GSA established the Acquisition Quality Measurement and Improvement Program, initiating the use of prenegotiation panels and postaward quality reviews of contracts. However, the effectiveness of these initiatives has been limited due to insufficient oversight. For example, three of the MAS acquisition centers that GAO visited had not reported the results of their 2003 prenegotiation panels—information needed by management to identify problems and make needed improvements. Moreover, the fourth acquisition center—which accounted for about 56 percent of the fiscal year 2004 MAS sales—has yet to hold a panel. While the postaward quality reviews—the second program initiative—have identified deficiencies in contract file documentation, they did not determine the underlying causes of these deficiencies or prescribe actions needed to address them. As a result of these weaknesses, GSA cannot be assured that fair and reasonable prices have been negotiated for its MAS contracts.

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Abbreviations

FSS	Federal Supply Schedule
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
GSA	General Services Administration
MAS	Multiple Award Schedules

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United States Government Accountability Office
Washington, DC 20548

February 11, 2005

The Honorable Susan M. Collins
Chairman, Committee on Homeland Security and Governmental Affairs
United States Senate

Dear Madam Chairman:

Each year, the federal government spends billions of dollars to buy commercial products and professional services through the General Services Administration's (GSA) multiple award schedules (MAS) program. The MAS program is designed to take advantage of the government's significant aggregate buying power and to provide a simplified method for procuring commonly used goods and services, ranging from office supplies to technical support. Through more than 16,000 MAS contracts, federal agencies can directly purchase more than 8 million products from more than 10,000 commercial vendors.

To ensure the federal government is getting the most value for the taxpayer's dollar, GSA seeks to obtain price discounts equal to those that vendors offer their most favored customers.¹ GSA's goal is to obtain most favored customer pricing as measured against the vendor's commercial customers who purchase in a manner similar to the government. After GSA negotiates MAS contract prices, agencies compare prices, terms, and conditions offered by various vendors and select those that best satisfy their product or service requirements.

Between fiscal years 1992 and 2004, MAS program sales have increased more than eightfold, from \$4.0 billion to about \$32.5 billion. Despite this dramatic increase, GSA and GSA's Inspector General have reported that MAS contract negotiators had not consistently negotiated for most favored customer pricing, in part because price negotiation tools were not being

¹ Most favored customers are customers or categories of customers that receive the best price from vendors. [48 C.F.R. 538.270a] The pursuit of most favored customer pricing is consistent with the objective of negotiating a fair and reasonable price. [Final rule, 62 Fed. Reg. 44,518, 44,519 (Aug. 21, 1997).]

used effectively and management controls had been reduced.² Concerned that GSA may be not be obtaining the best prices for its MAS contracts, you asked us to assess how GSA (1) negotiates most favored customer prices for MAS contract awards and extensions³ and (2) assesses the overall effectiveness of price negotiations.

To conduct our work, we discussed implementation of GSA policies, procedures, and management controls with agency officials at GSA's Office of Acquisition Management, Office of Performance Improvement and the Office of Government-wide Policy, and Office of Inspector General. We also visited four of GSA's seven acquisition centers: the National Furniture Acquisition Center, Services Acquisition Center and Information Technology Center in Virginia, and the Office Supplies and Administrative Services Acquisition Center in New York.⁴ To assess GSA's contract negotiation process, we identified the tools used—such as checklists, invoices, price analyses, and sales histories—to negotiate selected MAS contracts and discussed price negotiations with management officials and contract negotiators at the four GSA MAS acquisition centers we visited. To determine GSA's efforts to assess the quality of MAS contract price negotiations, we analyzed GSA's assessments of contract negotiation quality and discussed these efforts with officials from GSA's federal supply schedule office at GSA headquarters who are responsible for managing the MAS program. We conducted our review from February 2004 through February 2005 in accordance with generally accepted government auditing standards. See appendix I for a more detailed discussion of our scope and methodology.

² General Services Administration, *GSA Annual Performance and Accountability Report, Fiscal Year 2002* (Washington, D.C.: 2002) and *MAS Pricing Practices: Is FSS Observing Regulatory Provisions Regarding Pricing?* (Washington, D.C.: Aug. 24, 2001).

³ Extensions are 5-year options to renew the initial MAS contract.

⁴ GSA has nine acquisition centers. Of these, seven support the MAS program—the National Furniture Center, Information Technology Center, and the Services Acquisition Center in Arlington, Va.; the General Products Acquisition Center in Fort Worth, Tex.; the Center for Facilities Maintenance & Hardware located in Kansas City, Mo.; the Office Supplies & Administrative Services Acquisition Center in New York, N.Y.; and the Management Services Center in Auburn, Wash. We visited the centers in Arlington and New York.

Results in Brief

According to contract negotiators⁵ at the four MAS acquisition centers we visited, they used a variety of tools to analyze vendor-provided information and obtain most favored customer pricing. However, a June 2004 review by GSA of selected fiscal year 2003 MAS contract files found that nearly 60 percent of the files lacked sufficient documentation to establish clearly the prices were effectively negotiated. Specifically, the contract files did not establish that negotiated prices were based on accurate, complete, and current vendor information; adequate price analyses; and reasonable price negotiations. GSA's efforts to ensure most favored customer pricing has been hampered by the significant decline in the number of pre-award and postaward audits of MAS contracts—two independent pricing tools that have helped GSA avoid or recover hundreds of millions of dollars in excessive pricing. Between fiscal years 1992 and 1996, GSA conducted an average of 125 pre-award audits per year; between fiscal years 1998 and 2004, this average fell to about 21 per year.⁶ Postaward audits for price negotiations—which resulted in an average annual recovery of \$18 million in the early 1990s—were discontinued in 1997 when GSA revised its MAS contract audit policies to increase the use of pre-award audits—an increase that has not materialized.

In March 2003, to oversee and improve the quality of MAS contract negotiations, GSA established the Acquisition Quality Measurement and Improvement Program, which includes assessing the effectiveness of price negotiations. The program has two initiatives—prenegotiation clearance panels, which aim to ensure that negotiators are fully prepared to negotiate high dollar contracts, and quality reviews of contract negotiation files for evaluating the overall quality of completed contract negotiations. While this program represents a step in the right direction, GSA's oversight of these initiatives has been limited. For example, three of the four MAS acquisition centers we visited conducted a few panels in fiscal year 2004, but they did not report the results of the panels to MAS program management. Without such data, management cannot measure the effectiveness of the initiative across the organization or make needed improvements. Moreover, the fourth acquisition center, which accounted for about 56 percent of the fiscal year 2004 MAS sales, did not hold any panels. The quality reviews of contract files have also been limited. For

⁵ In this report, we refer to both contracting officers and specialists as “negotiators.”

⁶ In 1997, GSA reengineered its MAS program to implement commercial buying practices and streamline purchasing for customers. Because MAS contracts were negotiated under different rules during the year, we did not include fiscal year 1997 in our comparison.

example, the first three reviews, which took place in 2003 and 2004, did not determine the underlying causes of identified deficiencies or prescribe actions needed to address the causes. As a result of the weaknesses in its Quality Measurement and Improvement Program, GSA does not have reasonable assurance that contracting officials are effectively negotiating MAS contract prices.

GSA officials said they plan to implement changes during fiscal year 2005 to improve the Acquisition Quality Measurement and Improvement Program. Key efforts include providing on-line training with a module on price negotiation, making contract quality a performance measure to balance the contract negotiator's focus on quality as well as timeliness, and requiring each acquisition center to develop an individual improvement plan. While these efforts appear to be positive steps, their effectiveness is uncertain.

We are making two recommendations aimed at better ensuring that appropriate tools are used effectively to negotiate MAS contract prices and two recommendations aimed at increasing the effectiveness of GSA's Acquisition Quality Measurement and Improvement Program. In commenting on a draft of this report, GSA agreed with our recommendations. GSA also provided a broad description of the MAS program, which covers topics beyond the scope of our report. In addition, GSA provided technical comments, which we incorporated as appropriate.

Background

GSA, through its Federal Supply Schedule (FSS) program, makes commonly used commercial items and services available to federal agencies. MAS, the largest FSS program, is designed to provide federal agencies with a simplified method for acquiring varying quantities of a wide range of commercially available goods and services, such as office furniture and supplies, personal computers, scientific equipment, library services, network support, and laboratory testing services. The MAS program provides several advantages to both federal agencies and vendors. Agencies can use a simplified method of acquisition and avoid other procurement methods to purchase these items, which can be time-consuming and administratively costly. Vendors can receive wider exposure of their commercial products and expend less effort to sell their products.

In administering the MAS program, GSA is responsible for ensuring that all procurement regulations are followed and MAS prices reflect the

government's aggregate buying power. GSA awards indefinite-quantity contracts to multiple vendors supplying comparable commercial goods and services and provides the contracts categorized under various schedules to federal agencies. MAS contract awards are based on the results of price negotiations between contract negotiators and individual vendors. GSA negotiators seek to obtain discounts from a vendor's commercial price list, which are equal to or greater than the vendor's most favored customer's discounts. The most favored customer is a customer or category of customers that receives the best discounts from the vendor's commercial price list when purchasing quantities comparable to the government's under similar terms and conditions.⁷ Vendors provide catalogs and price lists to federal agencies, which in turn order the particular goods or services directly from the vendors that best meet their needs.

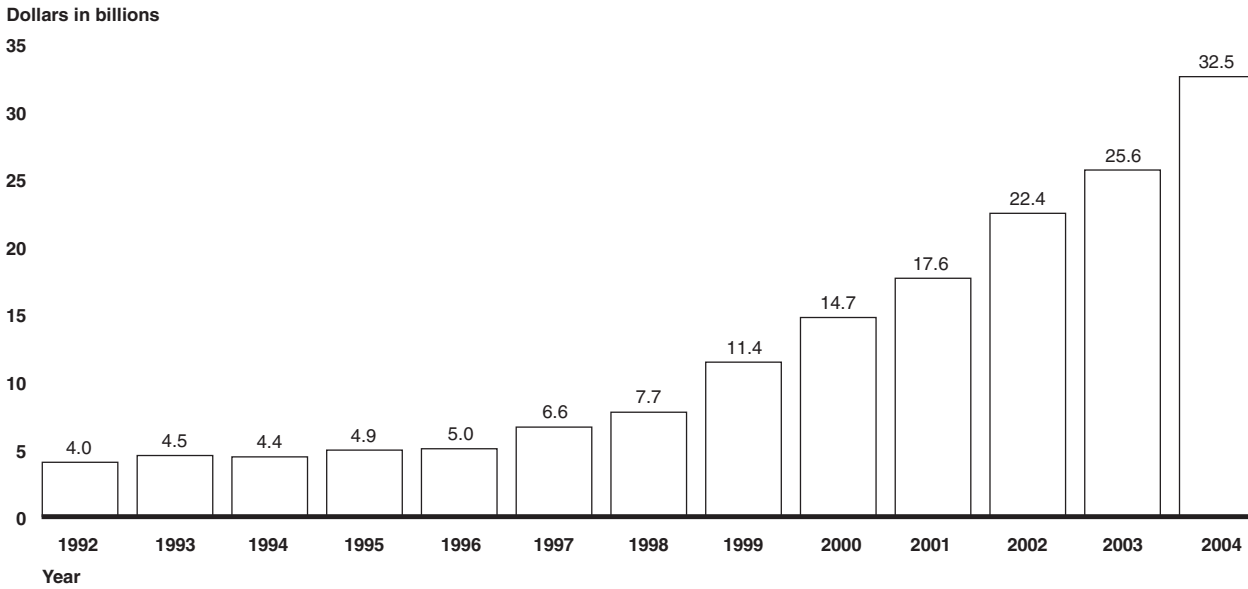
MAS Program Changes

In August 1997, GSA revised its acquisition regulations to expand access to commercial products and services and to implement greater use of commercial buying practices and streamline purchasing for customers.⁸ GSA believed that these changes would lead to more participation in the MAS program by both large and small businesses—procedures more consistent with commercial practice would increase competition and thereby provide federal agencies a wider range of goods and services at competitive prices. Beginning in the late 1990s, MAS program sales increased significantly (see fig. 1).

⁷ Terms and conditions of sale can include such factors as delivery requirements, warranty requirements, timing of price increases, and functions performed for the government by the vendor.

⁸ Final Rule, 62 Fed. Reg. 44,518 (Aug. 21, 1997) to be codified at 48 CFR Part 504, 507, 510, 511, 512, 514, 515, 538, 539, 543, 546, 552, and 570.

Figure 1: MAS Sales, Fiscal Years 1992 through 2004

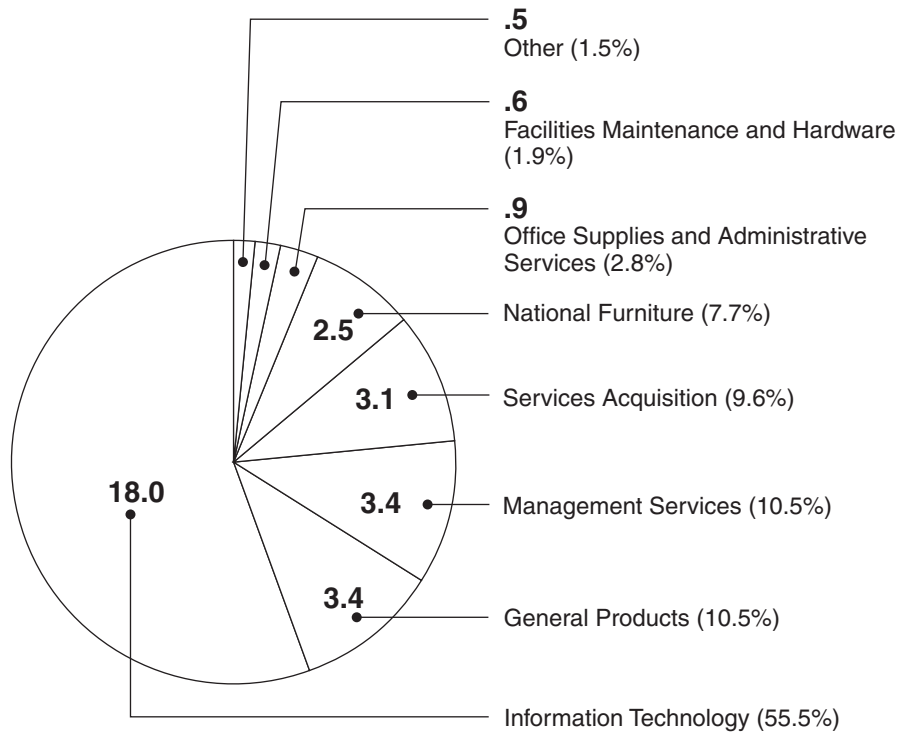


Source: GSA data.

Note: MAS sales amounts include single award sales for each year of less than \$1 million.

In fiscal year 2004, the Information Technology Acquisition Center had the largest MAS sales volume with more than \$18 billion (about 56 percent) of total MAS sales. Figure 2 shows the MAS sales for fiscal year 2004 by GSA acquisition center. (See app. II for a description of the products and services offered through each of the acquisition centers.)

Figure 2: Fiscal Year 2004 MAS Sales by Center



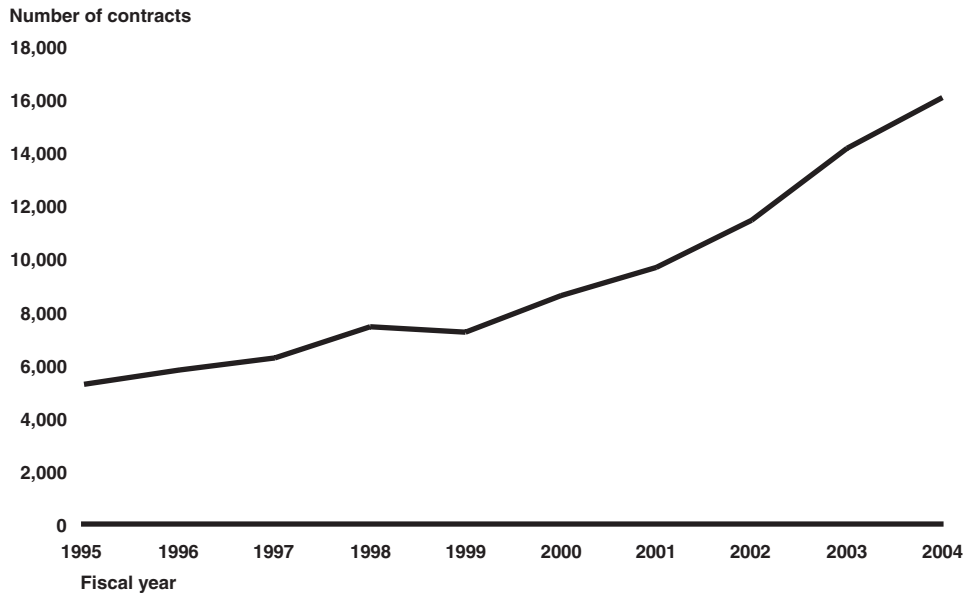
Dollars in billions

Source: GAO analysis of GSA data.

Note: The Other category includes MAS contracts administered by GSA centers other than MAS acquisition centers.

As MAS sales volume skyrocketed over the last decade, the number of contracts offering goods and services to federal agencies also increased. For example, in the mid-1990s, GSA had about 5,200 MAS contracts. By fiscal year 2004, this number had increased to over 16,000 MAS contracts (see fig. 3).

Figure 3: Increase in the Number of MAS Contracts, Fiscal Years 1995 through 2004



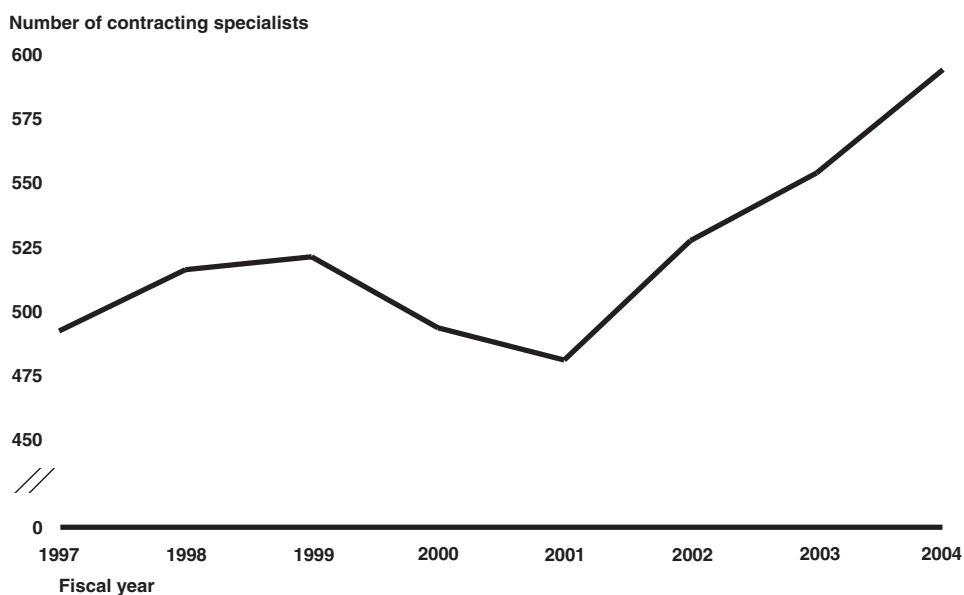
Source: GAO analysis of GSA data.

As the number of MAS contracts managed increased, the number of FSS contract specialists⁹ remained relatively stable, ranging from 512 in fiscal year 1997 to 503 in fiscal year 2001. In the last 3 years, however, the number of contracting specialists has risen from 540 in fiscal year 2002 to 593 in fiscal year 2004 (see fig. 4). As a result, more contract negotiators are available to negotiate and administer an increasing workload. Additionally, GSA has initiated some technology and process

⁹ The Office of Personnel Management defines the contract specialist occupational group as positions that manage, supervise, perform, or develop policies and procedures involving the procurement of supplies, services, construction, or research and development using formal advertising or negotiation procedures; the evaluation of contract price proposals; and the administration or termination and close out of contracts. Office of Personnel Management, *Handbook of Occupational Groups and Families*; (Washington D.C.: August 2002).

improvements, such as E-Buy¹⁰ and E-Offer,¹¹ to help contract negotiators better manage the increasing workload.

Figure 4: Number of FSS Contract Specialists, Fiscal Years 1997 through 2004



Source: GAO analysis of GSA data.

Negotiating Fair and Reasonable Prices

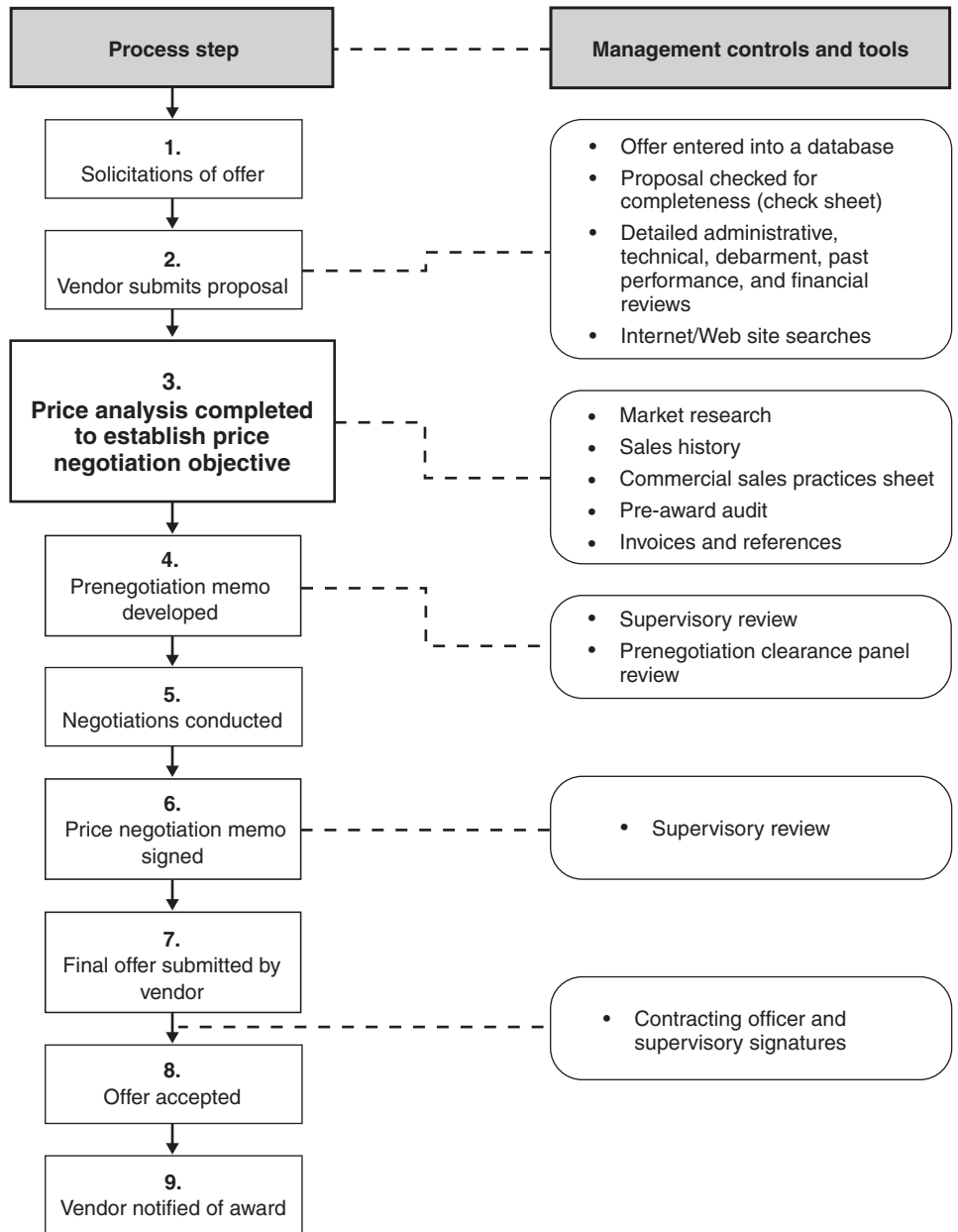
GSA's goal is to obtain the offeror's best price (the best price given to the most favored customer). However, the regulations recognize that there may be legitimate reasons why the best price is not achieved. Thus, the regulation permits an award at prices greater than the most favored customer price so long as the award is in the best interest of the United States and the price is fair and reasonable. To prepare for negotiations, contract specialists conduct price analyses by comparing each vendor's proposed prices to (1) other vendors' prices; (2) vendors' commercial customer prices; (3) competitor price lists, discount terms, or rebates; and

¹⁰ E-Buy is an on-line request for quotation tool designed to facilitate the request for submission of quotations for commercial services and products that are offered by schedule contractors. E-Buy was implemented in fiscal year 2001.

¹¹ E-Offer enables a company to become GSA-approved by preparing and submitting its offer and interact with contract specialists electronically. E-Offer was implemented in fiscal year 2004.

(4) market prices. In performing a price analysis, the contracting officer or an authorized representative (the GSA Office of Inspector General) also has the right to conduct a pre-award pricing audit, in which the vendor's books, records, documents, papers, and other records are reviewed to verify the pricing, sales, and other vendor-submitted data. Figure 5 shows some of the tools that can be used by GSA during the MAS contract price negotiation process.

Figure 5: MAS Contract Price Negotiation Process and Common Tools



Source: GAO analysis of GSA data.

Federal Acquisition Regulation (FAR) specifies that the complexity and circumstances of each acquisition determine the level of analysis required.¹² For example, determining a fair and reasonable price for professional services can be complex and would likely involve analyzing labor rates for a variety of skill levels. Conversely, analyzing the price of a ballpoint pen that is similar to many other pens already on a schedule would, in most circumstances, be straightforward and require the use of different tools such as catalogs. In addition, federal government sales and performance histories are available to help evaluate prices when contract extensions are considered.

Use of Price Negotiation Tools May Not Ensure Best Pricing on MAS Contracts

According to negotiators at the four acquisition centers we visited, a variety of tools are used to analyze vendor-supplied information and negotiate contract prices that nearly always were at least equal to the vendor's most favored customer prices. However, our analysis of a recent GSA review of product and service contract files found that most lacked sufficient and reliable documentation to establish clearly that prices were effectively negotiated. In addition, we found that the use of pre-award and postaward audits of pricing information—two key price negotiation tools that, in the past, have helped GSA avoid or recover hundreds of millions of dollars in excessive pricing—have declined dramatically.

Reviews Showed Effectiveness of Tools Used Is Unclear

The MAS contract negotiators at the four acquisition centers we visited used a variety of tools, including checklists, invoices, sales histories, and pre-award audits to help them analyze and negotiate prices. While their selection of tools was generally determined by the type of product or service being purchased and the type of proposal, other factors—such as GSA policies and procedures, resource availability, and performance metrics—also affected the use of certain pricing tools. For example, contract negotiators at the Services Acquisition Center were required to use numerous standardized tools such as checklists, letters, prenegotiation memorandums, and price negotiation memorandums to help them evaluate proposals, while contract negotiators at the National Furniture Center had more flexibility in selecting pricing tools.

¹² Analytical techniques and procedures may be used singly or in combination with others to ensure that the final price is fair and reasonable. The complexity and circumstances of each acquisition should determine the level of detail of the analysis required. [FAR 15.404-1(a)(1)]

Regardless of the pricing tools used, all of the contract negotiators whom we spoke with stated that their negotiations nearly always resulted in prices that were at least equal to vendors' most favored customer prices. However, GSA's June 2004 file review of 62 MAS contracts awarded or extended during 2003 at GSA's seven MAS acquisition centers found that 37 of the contracts—nearly 60 percent—lacked sufficient documentation to clearly establish that the contracts were effectively negotiated. Roughly 40 percent of the contracts lacked adequate price analyses or price negotiation documentation. We analyzed GSA's review of the 62 contracts and developed a profile of the types of documentation weaknesses identified in the review (see table 1).

Table 1: Contract Documentation Weaknesses of MAS Contracts by Acquisition Center

Acquisition center	Contracts reviewed	Contracts that did not meet pricing documentation requirements ^a	Contracts with inadequate price analysis	Contracts that did not fully document price negotiations	Contracts that did not identify most favored customer price
Center for Facilities Maintenance and Hardware	2	2	0	0	0
General Products Acquisition Center	10	5	5	0	0
Information Technology Center	10	8	5	7	4
Management Services Center	10	10	9	9	4
National Furniture Center	10	2	1	2	1
Office Supplies and Administrative Services Acquisition Center	10	9	6	6	2
Services Acquisition Center	10	1	0	0	1
Total^b	62	37	26	24	12

Source: GAO analysis of GSA data.

^aContract file documentation is to clearly establish that the vendor-supplied pricing information was accurate, complete, and current; that the vendor information was relied upon during the negotiations; adequate price analysis was conducted; reasonable negotiation objectives were established; the leverage of the total government's requirements was considered in negotiating prices; and the prices awarded were determined fair and reasonable as required in GSA Manual 538.270. [FSS Acquisition Letter FC-03-1: Acquisition Quality Measurement and Improvement Program; Mar. 25, 2003 and FSS Acquisition Letter FX-03-1, Supplement 1; Acquisition Quality Measurement and Improvement Program; March 2004.]

^bEach contract could have all, some, or none of the weaknesses listed in each of the columns.

While GSA's June 2004 file review revealed weaknesses in the MAS contract negotiation process, it often did not identify the specific causes for the weaknesses. For example, for some contracts, the reviewers reported that the contract file documentation of the price analysis was

unacceptable, but did not report what made the documentation unacceptable.

In September 2004, GSA completed a review of 28 additional MAS contracts. These contracts were awarded or extended between November 2003 and June 2004 at the seven MAS acquisition centers. Again, the preliminary results found that the documentation for 27 of the 28 contracts was insufficient to clearly establish that the most favored customer price objective was used for contract negotiations. As of January 21, 2005, GSA had not issued a final report on its fiscal year 2004 quality reviews.

Use of Pre-Award and Postaward Audits of Negotiation Information Has Declined Dramatically

In addition to the pricing tools available to contract negotiators, pre-award and postaward audits of negotiation information conducted by the GSA Inspector General have been valuable tools for ensuring the government is not overpaying for items purchased under MAS contracts. However, the use of these audits has dramatically declined in recent years. As the number of pre-award and postaward audits performed decreased, so too did the amount of negotiated cost savings and recoveries reported from these audits.

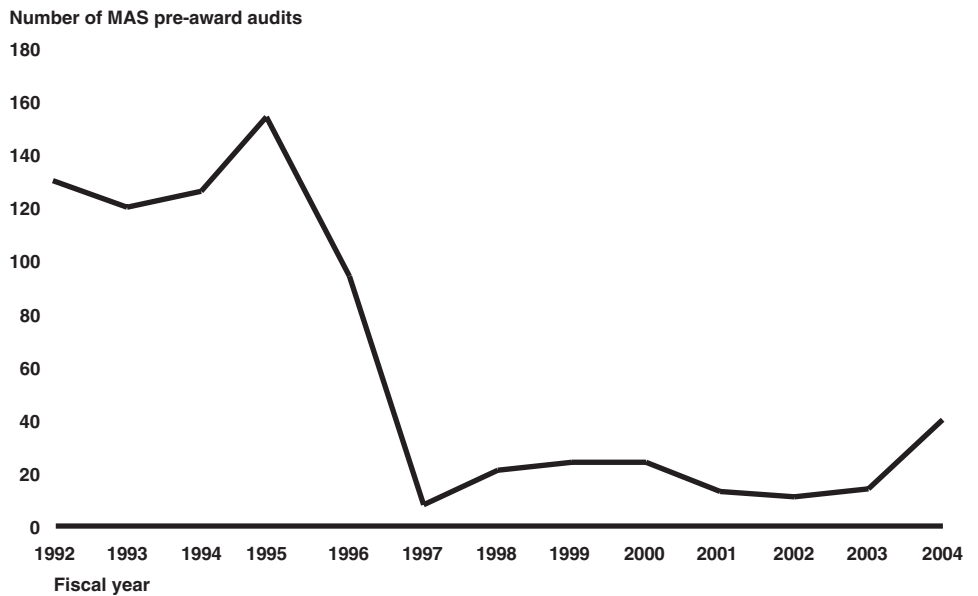
Pre-Award Audits

Pre-award audits enable contract negotiators to verify that vendor-supplied pricing information is accurate, complete, and current before the contract is awarded. Historically, pre-award audits have allowed GSA to identify and avoid hundreds of millions of dollars in overpricing. For example, in August 2001, the GSA Inspector General reported that a photocopier vendor offered state and local governments a price that was \$5,582 less than its price to GSA for the same type copier; the Inspector General estimated that the higher price paid by GSA customers could cost them nearly \$4 million more in just one year. In another example, the Inspector General found that a major distributor of information technology products sold its top 10 GSA-selling computer models to commercial customers at an average price that was 6 percent less than the price offered under the MAS contract. The Inspector General projected that over the contract's term, GSA customers would pay nearly \$40 million more for these products than they should have.

Despite the cost avoidance realized through pre-award audits, the number of these audits decreased dramatically between fiscal years 1992 and 2003—from 130 to 14. Between fiscal years 1992 and 1996, the average number of pre-award audits conducted annually was about 125; for fiscal year 1998 through 2003, the average number of pre-award audits

conducted annually fell to 18. In 2004, pre-award audits rose slightly to 40 (see fig. 6).

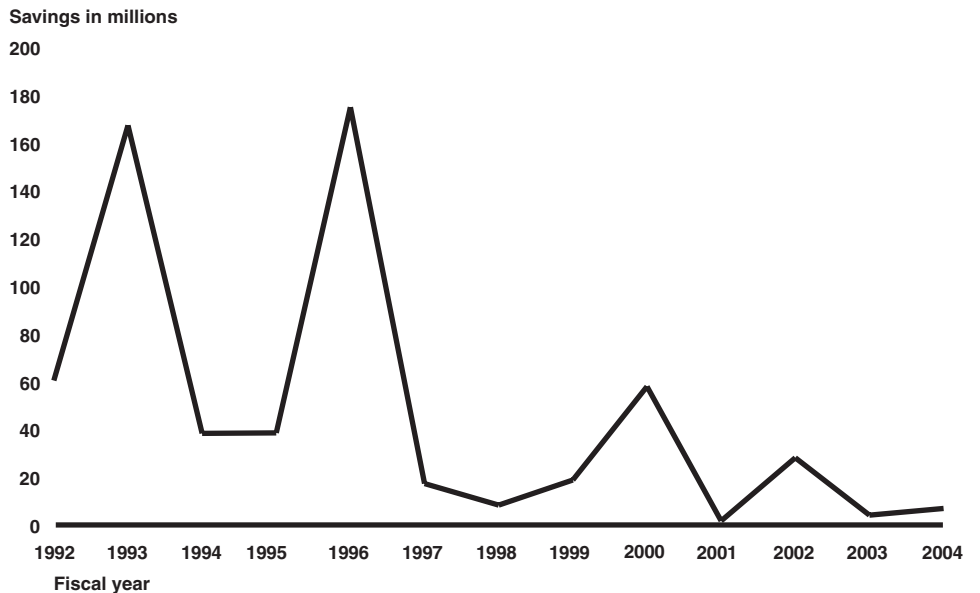
Figure 6: MAS Pre-Award Audits, Fiscal Years 1992 through 2004



Source: GSA Inspector General data.

As the number of pre-award audits performed decreased, so did the amount of the negotiated cost savings. Between fiscal years 1992 and 1997, the GSA Inspector General reported a total of nearly \$496 million in savings—an average of nearly \$83 million per year. Between fiscal years 1998 through 2004, the total savings reported had dropped to about \$125.9 million—an average of nearly \$18 million per year (see fig. 7).

Figure 7: Negotiated Cost Savings from Pre-Award Audits, Fiscal Years 1992 through 2004.



Source: GSA Inspector General data.

According to Inspector General and MAS contracting officials, the decline in pre-award audits was largely due to an organizational culture that stressed making awards quickly and because pre-award audits were not emphasized institutionally in GSA. For example, the performance goal for negotiating and awarding MAS contracts for the Office Supply and Administrative Services Acquisition Center is 79 days—a goal that would be difficult to meet if pre-award audits, which take on average 90 or more days to complete, were to be conducted. GSA management officials also noted that extending the contract performance period from one year—the contract period in the mid-1990s—to 5 years has reduced the number of opportunities for conducting pre-award audits.

Recently, MAS program and Inspector General officials formed a work group to address the decline in pre-award audits. In June 2003, GSA issued guidance that recognized the importance of pre-award audits to the evaluation of MAS price proposals and a clear determination regarding fair and reasonable pricing.¹³ The guidance instructs contract negotiators to

¹³ General Services Administration, Procurement Information Bulletin (PIB) 03-4: Audit Assistance—Multiple Award Schedule (MAS) Contracts (Washington, D.C.: June 20, 2003).

request audit assistance for new contract offers and extensions when the dollar value for estimated sales exceeds \$25 million for the 5-year contract period. We applied the \$25 million threshold to MAS contracts awarded or extended in fiscal year 2003 and identified about 34 new contracts and 37 contract extensions that were subject to pre-award audits. However, only 14 pre-award audits—which identified about \$4.1 million in negotiated savings—were completed in fiscal year 2003. For fiscal year 2004, GSA management and GSA Inspector General officials collaboratively selected about 55 MAS contracts for pre-award audits; by the end of fiscal year, the Inspector General had completed 40. For fiscal year 2005, the officials set a goal of completing 70 pre-award audits. To help achieve this goal, the FSS program has provided the Inspector General \$2 million to hire more auditors.

Postaward Audits

From fiscal year 1990 through fiscal year 1994, the GSA Inspector General reported that it recovered an average of \$18 million each year in vendor overcharges through postaward audits. Most of these recoveries were the result of vendor failure to provide accurate, complete, or current information in the negotiation of their MAS contracts and the vendors' failure to report and offer price reductions. Inspector General officials told us that they believe postaward audits of negotiation information are a key pricing tool and a deterrent to vendor pricing abuse.¹⁴

Despite the significant recoveries, postaward audits of pre-award pricing information have not been conducted since 1997—when GSA issued a final rule, changing its policy. Specifically, GSA removed language from the examination of records clause that automatically granted postaward audit rights for pre-award pricing information in every MAS contract.¹⁵ GSA expected the reduction in these postaward audits to be offset by an increase in the number of pre-award audits. However, the anticipated increased use of pre-award audits has not materialized.

¹⁴ The GSA Inspector General officials' comments are supported by the Department of Veterans Affairs Inspector General officials who have found postaward audits help protect against overcharging by vendors and often result in recovery of vendor overcharges. See GAO, *Contract Management: Further Efforts Needed to Sustain VA's Progress in Purchasing Medical Products and Services*, [GAO-04-718](#) (Washington, D.C.: June 22, 2004).

¹⁵ GSA, however, retained the right to conduct postaward audits for over billing, billing errors, and compliance with the Price Reduction and Industrial Funding Fee clauses. [GSAR 552.215-71].

While the policy changes greatly limited the use of postaward audits of pre-award pricing information, we found that it did not expressly eliminate its use. Under GSA's revised regulations, the contracting officer can modify the examination of records clause to provide for access to pre-award pricing information for 2 years after contract award or modification. To modify the examination of records clause, the contracting officer must, first, determine that there is a likelihood of significant harm to the government without access to verify the information. Such determination must be made on a schedule-by-schedule basis. Secondly, the contracting officer must obtain the senior procurement executive's approval to modify the examination of records clause of the contract. However, according to GSA management and GSA Inspector General officials, no contract clause modification requests have been sought or approved since the policy changes were made. These officials said that GSA has not issued guidance to help contracting officers determine the likelihood of significant harm to the government.

Opportunities Exist to Improve Management Oversight of MAS Price Negotiations

In March 2003, GSA established the Acquisition Quality Measurement and Improvement Program, a management control process for assessing and improving the quality of contract negotiations. The program consists of two initiatives—prenegotiation clearance panels¹⁶ and quality reviews of contract files.¹⁷ While these initiatives are a good first step toward establishing management controls for assessing the quality of MAS contract price negotiations, opportunities exist to increase their effectiveness.

¹⁶ Prenegotiation clearance review panels provide advice and concurrence to the contract negotiator and ensure that the negotiator is fully prepared to negotiate the most significant contracts.

¹⁷ Quality reviews evaluate the overall quality of completed contract negotiations.

Use of Prenegotiation Clearance Panels Has Been Limited

GSA established prenegotiation clearance panels to help MAS acquisition center management ensure the quality of its most significant contract negotiations. Prior to initiating discussions with a vendor for a contract award or modification that reaches a center's dollar threshold,¹⁸ the contract negotiators are required to seek advice and concurrence from the clearance panel. Panel procedures may also be applied to sensitive actions such as the first contract negotiations under new programs and contract extensions with problematic performance or sales reporting histories. However, since the initiative was implemented, few panels had been conducted at the acquisition centers we visited, and those that had been conducted had not been assessed at the agency level.

The Information Technology Center—which administered contracts with more than \$18 billion, or 56 percent, of fiscal year 2004 MAS sales—has yet to conduct a clearance panel. According to center management officials, no panels have been held because no contract's estimated annual sales had exceeded the center's \$80 million threshold for conducting a panel. However, we found five contracts that exceeded the threshold and, therefore, were subject to a clearance panel. Specifically, in fiscal year 2003, GSA awarded four contracts with total estimated sales values ranging from \$102.5 million to \$700 million and extended one contract with an estimated sales value of \$20.3 billion. Each of these met the threshold for a panel.

Each of the remaining three centers—which, combined, administered \$6.5 billion, or about 20.1 percent, of fiscal year 2004 MAS sales—had conducted a small number of panels in the past year. The Office Supplies and Administrative Services Center held 10 panels, the Services Acquisition Center held 9 panels, and the National Furniture Center held 6 panels. According to the management officials and contract negotiators at these centers, the panels helped prepare them to successfully negotiate most significant MAS contracts. For example, officials at the Office Supplies and Administrative Services Center stated that the panels helped contract negotiators learn how to better negotiate large, sensitive, and

¹⁸ GSA policy gives acquisition centers the discretion to lower their dollar thresholds for determining when a panel review should occur. In fiscal year 2003, thresholds for each center were as follows: National Furniture Center, \$7 million; Information Technology Center, \$80 million; Services Acquisition Center, \$9 million; General Products Acquisition Center, \$7 million; Hardware Superstore, \$5 million; Office Supplies & Administration Services Acquisition Center, \$5 million; and the Management Services Acquisition Center, \$9 million. [FSS Acquisition Letter FC-03-1; Acquisition Quality Measurement and Improvement Program, Mar. 25, 2003.]

controversial contracts. The officials at all three centers also stated that clearance panels helped in identifying inconsistencies in the documentation and analyses used to develop their negotiation objectives. The officials further noted that because these reviews have been a valuable prenegotiation technique, they lowered the dollar threshold required for a panel review to increase the number of panel reviews. For example, the Office Supplies and Administrative Services Center officials reduced the center's threshold from \$5 million to \$2 million so that more contracts would qualify for panel review.

While these efforts helped centers prepare for negotiating their most significant MAS contracts, GSA officials responsible for overseeing the MAS program were unaware of the effectiveness of the panels. GSA officials acknowledged that they neither collected nor analyzed information on the implementation of the panel initiative and did not require the acquisition centers to report panel outcomes to MAS program management. However, they stated that they would implement a procedure to collect panel information by the end of calendar year 2004.

Scope of Quality Reviews Limited Their Effectiveness

In the first 2 years of its quality reviews, GSA identified a number of deficiencies in the documentation supporting price negotiations and price reasonableness determinations. However, the scope of these reviews was limited, minimizing their effectiveness. Moreover, GSA did not identify the underlying causes of the deficiencies found or the specific actions to address the causes—despite actions taken to improve the quality review initiative.

Through its quality review initiative, GSA planned to select a representative sample of MAS contracts at each of the acquisition centers¹⁹

¹⁹ General Services Administration, Acquisition Quality Measurement Improvement Program, Acquisition Letter FC-03-1 (Washington D.C.: Mar. 25, 2003).

and assess the pre-award documentation—rating it as excellent, satisfactory, marginally acceptable, or unacceptable²⁰--in the following three pricing areas:²¹

- Price negotiation documents are to clearly establish that the pricing information provided by the vendor was accurate, complete, and current; the information was relied upon during negotiations; adequate price analyses were conducted; reasonable negotiation objectives were established; the amount of the total government's requirements was leveraged in negotiating prices; and the prices negotiated were fair and reasonable considering the prices offered by the vendor to their most favored customer.
- Contract modifications documentation should support the conclusion that all contract modifications were adequately reviewed to establish that the terms proposed were in the interest of the government and that prices for newly awarded items were determined fair and reasonable considering the prices offered by the vendor to their most favored customer.
- Contract extension decisions are to be fully documented in compliance with regulations, and the prices for the option established as fair and reasonable with consideration of the prices offered by the vendor to its most favored customer.

For the fiscal year 2003 quality review, GSA did not meet these criteria—largely because it had significantly reduced the scope of the review. For example, GSA completed its review at only one of its seven centers—the Services Acquisition Center. According to MAS program managers, a lack of resources and reviewers and concerns about the independence of the available reviewers prevented them from conducting more reviews. In addition, in its one review, GSA assessed 19 fiscal year 2003 contracts, which did not make up a representative sample. GSA found that the price

²⁰ A contract file that indicated that the negotiator used excellent skill and initiative to resolve problems and establish pricing that fairly represented the full value of the contract would be rated as excellent. A contract that needed significant corrective action to meet regulatory requirements or to establish fair and reasonable pricing, or both, would be rated as unacceptable.

²¹ In 2003, the quality review included seven critical factors of which only three were directly related to pricing.

negotiation documentation for 4 of the 19 contracts reviewed was “unacceptable.”

For fiscal year 2004, GSA planned to review 10 contracts each quarter at each of its seven MAS acquisition centers—a total of 280 MAS contracts—to improve the independence of the review team members, and refine the review criteria and rating categories. However, GSA completed only two quarterly reviews of a total of 90 MAS contracts and eliminated the rating system—instead, contract reviewers identified only strengths and weaknesses of each contract negotiation. Moreover, reviewers did not determine the underlying causes for identified pricing deficiencies or develop plans to address the causes. For example, the negotiation documentation for a contract with a dollar value of \$3.5 million lacked an adequate price analysis and did not identify the vendor’s most favored customer price, but the cause of these deficiencies was not determined. Similarly, the documentation of a contract with an estimated value of \$125,000 was insufficient in either the contract extension or the original contract to determine if any of the pricing requirements had been met. Again, however, the causes for these deficiencies were not identified.

In September 2004, GSA completed a review of 28 additional MAS contracts that were awarded or extended between November 2003 and June 2004 at the seven MAS acquisition centers. GSA’s preliminary findings of these reviews are inconsistent. For example, GSA reported that all 28 contracts contained sufficient documentation to establish clearly that they met pricing requirements. However, the most favored customer price was not established clearly for 27 of the 28 contracts. In addition, GSA reported that one contract’s negotiation documents clearly showed that reasonable negotiation objectives were established and an adequate price analysis was conducted. However, the review also stated, “While the contract file contains several pages where, for each item offered, the government price and discount is listed, as well as the commercial price, the contract file does not contain a commercial pricelist. Thus, there is no way to substantiate that the commercial prices shown in the tables comparing commercial and government prices are, in fact, the published commercial prices.” As of January 21, 2005, GSA had not issued a final report on its fiscal year 2004 quality reviews.

According to GSA officials, several efforts to improve the quality review process are to be implemented during fiscal year 2005. Key efforts include, providing on-line training with a module on price negotiation for contract specialists, making contract quality a performance measure to balance the contract negotiator’s focus on quality as well as timeliness,

and requiring each acquisition center to develop an individual improvement plan. While these efforts appear to be positive steps, their effectiveness is uncertain.

Conclusions

The MAS program has provided the government with a more flexible and cost-effective approach to buying commercial items and services, and the MAS's popularity has increased significantly in recent years. However, MAS contract negotiators do not use the full range of tools to ensure that the government is effectively negotiating prices. While GSA has taken steps to establish a program to assess the quality of its MAS contract negotiations, all acquisition centers are not fully participating, and the scope of the program is limited. Moreover, the program has not yet determined why deficiencies it has identified thus far are occurring. Until GSA takes steps to ensure the appropriate use of available pricing and negotiation tools, it will continue to miss opportunities to save the government hundreds of millions of dollars in the procurement of goods and services.

Recommendations for Executive Action

We are making four recommendations aimed at helping GSA ensure that prices are effectively negotiated for MAS contracts. We recommend that the Administrator of the General Services Administration

- ensure that pre-award audits are conducted when the threshold is met for both new contract offers and contract extensions,
- develop guidance to help contracting officers determine when postaward audits are needed,
- direct GSA program management to revise the Acquisition Quality Measurement and Improvement Program to measure and report on the performance of the prenegotiation clearance panels, and
- direct GSA program management to revise the Acquisition Quality Measurement and Improvement Program to broaden the scope of quality review initiative to (1) determine the underlying causes for contract pricing deficiencies and (2) develop appropriate plans to implement corrective actions.

Agency Comments

GSA provided written comments on a draft of this report. GSA agreed with our recommendations, and stated that it has already begun to take the following actions:

-
- FSS will work with the GSA's Office of Inspector General to increase and to improve the pre-award audit process.
 - GSA will work with the acquisition community to generate a discussion about the role that postaward reviews should play in the acquisition process. To foster this discussion, GSA will have the Office of Chief Acquisition Officer publish a Notice of Proposed Rulemaking.
 - FSS has already revised its program operating procedures to require reports on prenegotiation clearance panels.
 - GSA is expanding an action plan to improve file documentation pertaining to contract pricing and is placing strong emphasis on proper negotiation.

While GSA agreed with our recommendations, it felt that our report fell short in a few areas. First, GSA thought that our report should have described in more detail the MAS program. We have provided the information needed to understand the issues of concern in our review. GSA provided additional details on the MAS program, which are reprinted in appendix III.

Second, GSA asserted that the findings of its Acquisition Quality Measurement and Improvement Program reviews should not be interpreted to mean that FSS is not obtaining good pricing. To illustrate this point, GSA noted that it reexamined 8 of the 62 contracts covered by the June 2004 quality review and now concludes that the contracts had "excellent" pricing. It is unclear how GSA's examination of contract documentation that was previously found to be inadequate supports such a determination. More important, we are concerned that GSA's position understates the seriousness of the problem it has in ensuring that GSA contracting officials are effectively negotiating MAS contract prices. In addition to its own quality reviews, our report shows the use of pre-award audits and the millions of dollars in savings from such audits have declined dramatically in recent years. We also reported that the use of prenegotiation clearance panels, designed to ensure quality of significant contract negotiations, has been limited. Such problems are not new. For example, the GSA Inspector General reported in August 2001 that (1) GSA contracting officials were not consistently negotiating most favored customer prices, (2) contracts were being extended with little negotiation or price analysis, and (3) pre-award audits had decreased significantly in recent years. Clearly, these problems are serious, longstanding, and have significant financial consequences. Thus, we believe GSA needs to place

priority attention on obtaining adequate documentation to ensure its contracting officials are effectively negotiating MAS contract prices.

Third, GSA commented that while our report points to a significant decline in the number of pre-award and postaward audits, it does not address the factors that contributed to this decline. We disagree. As discussed in our report, MAS contracting officials and Inspector General officials identified a number of factors that in the past contributed to the reduction of the number of pre-award audits. These factors include an organizational culture that stresses making contract awards quickly and performance measures that focus on timeliness. The reduction of the number of opportunities for conducting pre-award audits caused by the extension of contract performance period from 1 year—the contract period in the mid-1990s—to 5 years was also cited as a factor. However, according to GSA it receives more than 3,000 new MAS contract offers each year. Despite these opportunities to conduct pre-award audits, the number of pre-award audits has only increased from 14 in fiscal year 2003 to 40 in fiscal year 2004.

Fourth, GSA expressed concern about our understanding of the regulatory framework required for postaward audits of commercial contracts and that we underestimated the risk and overestimated the savings associated with these postaward audits. We are aware that the 1997 change to GSA's regulations stimulated substantial disagreement and discussion concerning the extent of GSA audit authority. GSA received numerous comments asserting that the Clinger-Cohen Act (PL 104-106) eliminated its authority to conduct postaward audits of pre-award pricing information. Similar views were expressed in post enactment language by the House Armed Services Committee in House Report 104-563. Although GSA concluded that it retained authority for postaward audits, GSA's final rule restricted the use of postaward audits. Specifically, the final rule allows the contracting officer to modify the Examination of Records by GSA (Multiple Award Schedule) clause to provide for postaward audits only "after the contracting officer makes a determination that there is a likelihood of significant harm to the Government without access to verify the information and obtains the Senior Procurement Executive's approval." We have not recommended that GSA change the postaward audit restriction. Rather, we have noted that contracting officers do not understand the rule and need guidance to fulfill their responsibilities under the rule. Regarding the savings associated with postaward audits, the estimates were produced and reported by GSA's Inspector General.

Fifth, GSA commented that because the Acquisition Quality Management and Improvement Program has yet to be fully implemented, it is not reasonable to evaluate the adequacy of the program in achieving improvements. This misses the point. We believe that improvements should be made when the need for them are identified regardless of the program's implementation stage. For example, we found that the program when it was launched in March 2003 was limited to two initiatives—prenegotiation panels and quality reviews—and that other initiatives key to a successful improvement program, such as training, were not formally included as an initiative under the program. Coincident with our finding, GSA has initiated a training program.

Finally, GSA commented that it had made a commitment to establishing a culture of quality contracting and identified 12 improvement actions taken since November 2001. Our report identifies five of these actions: establishing the Acquisition Quality Measurement and Improvement Program; implementing a contract quality measure in the individual performance plan for each contracting associate; developing on-line and classroom training courses and modules for FSS contracting professionals via FSS Center for Acquisition Excellence; forming an IG Working Group to focus on the need for pre-award audits; and increasing the number of contracting associates. The remaining seven improvement actions either were not directly related to the issues in our report or were implemented after we completed our fieldwork. Therefore, we are not in a position to comment on these improvement actions.

GSA also made a number of technical comments, which we respond to in appendix III.

As agreed, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies of this report to the Honorable Stephen A. Perry, Administrator of the General Services Administration; appropriate congressional committees; and other interested parties. We will also provide copies to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have questions concerning this report, please contact me at (202) 512-4841 or by e-mail at cooperd@gao.gov or James Fuquay at (937) 258-7963. Key contributors to this report were Sanford Reigle, Elaine Boudreau, Sameena Ismailjee, Mary Jo Lewnard, Sylvia Schatz, and Karen Sloan.

Sincerely yours,

A handwritten signature in black ink that reads "David E. Cooper". The signature is written in a cursive style with a large, prominent initial "D".

David E. Cooper
Director
Acquisition and Sourcing Management

Appendix I: Scope and Methodology

To determine how GSA negotiates most favored customer pricing objectives for MAS program contract awards and extensions, we examined GSA policies and procedures for contract negotiation, including information requirements for price negotiation memorandums, periodic reviews focusing on the quality of MAS price negotiations, specific guidance on contract price negotiations, and training given to contracting officers and contract specialists. We discussed implementation of GSA policies, procedures, and management controls with agency officials at GSA's Office of Acquisition Management in Arlington, Virginia; Office of Performance Improvement and the Office of Government-wide Policy in Washington, D.C.; and the GSA's Office of Inspector General in Washington, D.C. Also, we visited the Office Supplies and Administrative Services Acquisition Center in New York, New York; and the National Furniture Acquisition Center, Services Acquisition Center, and Information Technology Center in Arlington, Virginia. We obtained and analyzed GSA data on MAS contract awards and sales volume as recorded in the Federal Supply Service Automated Supply System FSS-19 used by GSA to procure and distribute supplies across the federal government. To help ensure reliability of FSS-19 data, we reviewed the results of the GSA Inspector General's audit of the system's internal controls and tests of application controls completed in support of GSA's fiscal year 2003 consolidate and combined financial statements. Also, we reviewed GSA Inspector General reports, analyzed cost avoidance and cost recovery estimates, and discussed these data with GSA Inspector General officials.

Further, we reviewed contract files and discussed price negotiation practices and tool use with management officials and contract negotiators responsible for selected MAS contracts at four of GSA's seven MAS acquisition centers. At these centers, we reviewed the contract files that GSA had randomly selected for review under their Acquisition Quality Measurement and Improvement Program. Based on our review of price negotiation procedures and discussions with acquisition center management officials concerning the GSA selected MAS contracts, we developed a flowchart of the contract price negotiation process identifying tools used and controls over their use.

To determine how GSA assesses the overall effectiveness of MAS contract price negotiations, we reviewed GSA policies, procedures, and efforts to evaluate the quality of MAS contract negotiations and awards, identify and implement needed improvements, and communicate best practices throughout the acquisition community. Also, we discussed management controls established to assess the effectiveness of MAS contract negotiations to obtain the most favored customer price objective with

agency officials at GSA's Office of Acquisition Management in Arlington, Virginia; and the Office of Inspector General in Washington, D.C. We reviewed prior GAO and GSA Inspector General findings on GSA's MAS contract price negotiations. Further, we analyzed the 2003 and 2004 results of GSA's Post Award Contract Reviews and for selected contracts, interviewed responsible acquisition center and contract negotiation officials to evaluate the quality of GSA's review, identify underlying cause for unacceptable price negotiations, and document corrective actions taken.

Appendix II: MAS Acquisition Centers' Products and Services

Acquisition Center	Products and Services
Center for Facilities Maintenance and Hardware	<ul style="list-style-type: none"> Appliances Coatings Lawn equipment Machining equipment Tools
General Products Acquisition Center	<ul style="list-style-type: none"> Buildings and building materials Industrial services and supplies Total solutions for law enforcement, security, facilities management, fire, rescue, clothing, marine craft, and emergency disaster response Food service, hospitality, cleaning equipment and supplies, chemicals, and services Sports, promotional, outdoor, recreational, trophies, and signs Temporary administrative and professional staffing Laboratory testing and analysis services Test and measurement equipment, avionics equipment, unmanned aerial vehicles, and related services Chemistry, biochemistry, clinical instruments, general purpose laboratory instruments, and services Geophysical, environmental analysis equipment, and services
Information Technology Center	<ul style="list-style-type: none"> General purpose commercial information technology equipment, software, and test administration
Management Services Center	<ul style="list-style-type: none"> Energy services Environmental services and products Language services Logistics worldwide Management, organizational, and business improvement services
National Furniture Center	<ul style="list-style-type: none"> Office, imaging, and document solution Professional audio/video, telecommunications, and security solutions Office furniture Household and quarters furniture Packaged furniture Comprehensive furniture management services Special use furniture Miscellaneous furniture Floor coverings Furnishings

**Appendix II: MAS Acquisition Centers'
Products and Services**

Acquisition Center	Products and Services
Office Supplies and Administrative Services Acquisition Center	Training aids and devices Instructor-led training Course development Test administration Office products/supplies and services New products/technology Publication media Shipping, packaging, and packing supplies Human resources and Equal Employment Opportunity services
Services Acquisition Center	Financial and business solutions marketing Media and public information services Professional engineering services

Source: GSA data.

Appendix III: Comments from the General Services Administration



GSA Administrator

February 1, 2005

Mr. David E. Cooper
Director
Acquisition and Sourcing Management
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Cooper:

Thank you for affording the opportunity to comment on the General Accountability Office (GAO) draft report entitled "Contract Management: Opportunities Exist for GSA to Improve Oversight of Multiple Award Schedules Contract Price Negotiations" (GAO-05-229). I also appreciated the professionalism and dedication that you and your team demonstrated while conducting your review.

In order to fulfill our mission to "... help Federal agencies better serve the public by offering, at best value ... acquisition services ...," General Services Administration (GSA) associates must adhere strictly to Federal acquisition policies, regulations, and best practices. To ensure that this is the case, without exception, GSA launched the agency-wide "Get It Right" plan in July 2004. "Get It Right" is a comprehensive approach to achieving excellence in Federal acquisition. The plan consolidates a number of existing and new initiatives into a unified GSA-wide effort for assessing regulatory compliance and providing feedback to customer agencies, industry partners, the acquisition workforce, and other stakeholders. The "Get It Right" plan has five objectives:

1. Secure the best value for Federal agencies and American taxpayers through an efficient and effective acquisition process, while ensuring full and open competition, and instilling integrity and transparency in the use of GSA contracting vehicles.
2. Make acquisition policies, regulations, and procedures clear and explicit.
3. Improve education/training of the Federal acquisition workforce on the proper use of GSA contracting vehicles and services.
4. Ensure compliance with Federal acquisition policies, regulations, and procedures.

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5. Communicate with the acquisition community, including agencies, industry partners, Office of Management and Budget (OMB), Congress, and other stakeholders regarding the use of GSA contracting vehicles and services.

To improve oversight of the ever-increasing number of Multiple Award Schedule contracts, the Federal Supply Service (FSS) established the Office of Acquisition Management in 2003. Among the many actions taken by the FSS Office of Acquisition Management was the establishment of the Acquisition Quality Measurement and Improvement Program (ACQMIP). To ensure proper performance of the contract award system within FSS, this system was reviewed by ACQMIP. In fact, the same Multiple Award Schedule contract sample generated for use in the ACQMIP review was also used by the GAO team that prepared this report.

We are pleased that GAO found the data collected by FSS sufficient for its use as a basis for many of the MAS report conclusions. It is important to note that although the reviews performed by FSS and GAO discovered that oversight of the Multiple Awards Schedule contract award system should be improved, we believe that FSS continues to secure best value for its customers and achieves fair and reasonable pricing. This is illustrated by the fact that, following the GAO review, FSS reexamined a sampling of the contract files in which we had our most serious documentation concerns. Those eight contract files, in fact, did have excellent pricing (most favored customer or better). FSS is reviewing the remaining files in question. In addition, FSS is continuing its review of the findings of the contract quality reviews.

As noted above, one of the key objectives of the "Get It Right" plan is to "[E]nsure compliance with federal acquisition policies, regulations, and procedures." Non-compliance is unacceptable. To this end, we developed an action plan to improve file documentation, which is consistent with many of the recommendation in your report. For example, we have:

- Established the Office of Acquisition Management (3/2003);
- Published FAR 8.4 update incorporating ordering procedures for services and guidance on sole-source orders (7/2004);
- Initiated the development of a negotiation quality measurement and improvement process (11/2001);
- Established the Acquisition Quality Measurement and Improvement Program (3/2003);



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- Implemented a contract quality measure in the individual performance plan for each contracting associate (11/2004);
- Tied senior manager performance plans to remediation of concerns identified (11/2004);
- Established a pricing division in the Information Technology Acquisition Center to oversee review and negotiation of pricing (10/2004);
- Established a nationwide program to regularly document and evaluate contractor performance across over 25 specific contractor requirements (10/2002);
- Conducted customer compliance surveys (8/2003, 9/2004);
- Developed on-line and classroom training courses and modules for FSS contracting professionals via FSS Center for Acquisition Excellence (3/2003);
- Established IG Working Group to facilitate preaward audits (12/2001);
- Significantly increased the number of contracting associates (2001-2004); and
- Initiated agency-wide Procurement Management Reviews (2004).

Your report offered four specific well-considered recommendations that we are acting upon. FSS will work with GSA's Office of Inspector General to increase and improve the pre-award audit process. We will also work with the acquisition community to generate a discussion about the role that post-award reviews should play in the acquisition process. We will foster this discussion by having our Office of Chief Acquisition Officer publish a Notice of Proposed Rulemaking in the GSA Manual (GSAM). This will promote the dialogue that should provide a direction to follow. Consistent with GSA's "Get It Right" plan and your recommendation, FSS has already revised its program-operating procedures to require reports on pre-negotiation clearance panels.

Finally, your report called for broadening the scope of quality reviews in the interest of developing corrective actions. FSS secures best value for our Government customers by negotiating fair and reasonable pricing based on most favored customer analysis and by educating our customers about schedule ordering procedures designed to foster best value. Complete file documentation enables FSS to demonstrate to our customers how that best value has been achieved. Therefore, we are expanding an action plan to improve file documentation pertaining to contract pricing and we are placing strong emphasis on proper negotiation.

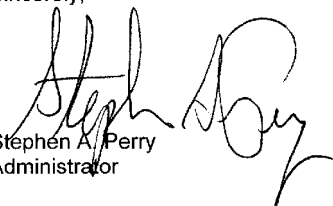
**Appendix III: Comments from the General
Services Administration**

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GSA is proud of the help we provide to Federal agencies to enable them to better serve the American people by offering best value acquisition services. In our quest for progress and continuous improvement, we will use this report as a useful tool for improving our contracting operations and promoting a culture of acquisition excellence throughout GSA.

Additional comments are provided in the attached statement.

Sincerely,



Stephen A. Perry
Administrator

Attachment

Federal Recycling Program



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**GSA COMMENTS ON THE GAO DRAFT REPORT,
CONTRACT MANAGEMENT: OPPORTUNITIES EXIST FOR GSA TO
IMPROVE OVERSIGHT OF MULTIPLE AWARD SCHEDULES CONTRACT
PRICE NEGOTIATIONS, DATED DECEMBER 27, 2004
GAO-05-229**

GENERAL COMMENTS: GSA appreciates the work GAO has done and appreciates the opportunity to comment on the report. We feel that the GAO report should provide for its readers a fuller description and understanding of the Multiple Award Schedule Program (MAS program) which is part of an integrated procurement process that provides best value to our customer agencies and the taxpayer.

At the schedule contract level, GSA concentrates on obtaining fair and reasonable pricing. We do so by using the concept of most favored customer pricing as a starting point, and then negotiating from there based on all the specifics of the situation. Our goal is to obtain a fair and reasonable price as measured against the vendor's commercial customers who purchase in a manner similar to the Government. Just as important, the prices and terms and conditions established at the contract level provide a framework or starting point from which agencies can leverage their own requirements seeking price reductions through competition at the order level.

FSS provides a number of tools that assist agencies in conducting competitions, seeking price reductions and making product or service comparisons among our contractors prior to placing an order. *GSA Advantage!*[®] is our electronic catalog that includes over 8 million items. This electronic catalog allows contracting officers to conduct market research and to analyze products online in real time. For example, agencies can conduct market research focusing on small businesses and get credit towards their socio-economic goals for subsequent orders. The FSS electronic request-for-quote tool, e-Buy, allows customer agencies to post statements of work online and request quotes in response from our contractors. It enhances competition by both streamlining the process and providing transparency in the order process. Last fiscal year over 25,000 agency notices were posted on e-Buy resulting in an average number of three contractor proposals received in response to the notices. The MAS program, with its streamlined, competitive ordering process provides customer agencies and the taxpayer with an effective and efficient procurement tool for obtaining best value.

As GAO correctly notes, the MAS program has increased dramatically over the last 10 years, with sales growing from \$4 billion per year to sales of \$32 billion per year. This growth reflects the strength of the underlying program and the numerous benefits resulting from it. In the same time, the number of multiple

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award contracts has roughly tripled – and over 3,000 new schedule offers are received each year.

With this program growth, GSA's program management responsibilities have increased. To improve oversight, FSS established the Office of Acquisition Management in November 2003. This new office was set up to provide acquisition management guidance for all FSS procurement programs, to develop internal and Government training on FSS procurement vehicles, to improve acquisition systems, and to improve contract administration and contract management practices.

One of this office's first efforts was the establishment of the Acquisition Quality Measurement and Improvement Program. Under this program, FSS began reviewing how well it performed in awarding new contracts. GAO used these FSS reviews in concluding that "nearly 60 percent lacked the documentation needed to clearly establish that the best price objectives were negotiated." In fact, the reviews did establish that FSS had a number of areas where it could continue its improvement efforts, including the quality of its documentation. However, these results do not mean, and should not be interpreted to state, that FSS is not obtaining good pricing. Neither FSS nor GAO turned up evidence to suggest that the weaknesses in documentation resulted in prices that were unreasonable. FSS reexamined a sampling of the contract files where we had among our most serious documentation concerns. Those eight contract files, in fact, did have excellent pricing (most favored customer or better). FSS is reviewing the remaining files in question. In addition, FSS is continuing its review of the findings of the contract quality reviews. The next step is to issue a draft report to all the acquisition activities who were subjects of the review. In essence it is a comment period for the acquisition activities to give the reviewers feedback on the results and validate the review process. This step is part of the internal checks and balances designed to ensure the accuracy of the final report.

GAO points to a significant decline in the number of pre and post-award audits over the last 10 years. The draft report does not address the factors that, in the past, contributed to the reduction in the number of audits. FSS moved to longer term contracts resulting in fewer preaward audits since many of the major contractors already had long term schedule contracts. FSS and GSA's Office of Inspector General (the IG) are now focusing on conducting audits of these contractors as part of exercising options to extend these existing contracts. GSA agrees that over the last 10 years the number of audits has sharply decreased,

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but also notes that this trend was reversed over the last two years. From 2003 to 2004, there was nearly a tripling of the number of pre-award audits requested. For FY 2005, FSS has provided funding to the IG to ensure that more pre-award audits are completed.

GAO recommends that GSA issue additional guidance on appropriate use of post-award audits. GSA is concerned that GAO has not fully understood the regulatory framework required for post-award audits of commercial contracts and thus underestimates risks and over estimates savings associated with them. For example, recently, GSA has focused our audit efforts on preaward audits as the best vehicle to protect the Government's interests in developing contract pricing. FSS and the IG are working to increase the number of preaward audits and the dollar value of schedule contracts covered by those audits.

GAO states that the Acquisition Quality Management and Improvement Program is a step in the right direction, but concludes that its effectiveness has been limited due to insufficient oversight. There are always opportunities to improve oversight, and FSS concurs with most of the specific recommendations made in the report. Many of them, in fact, are already part of GSA's long-term plan for the Acquisition Quality Measurement and Improvement Program. As the program has not yet been fully implemented, and has not even formally issued its first report, it is not reasonable to evaluate the adequacy of the program in achieving improvement. Upon report issuance, FSS will develop appropriate action plans, including one to address file documentation.

FSS notes that while GAO addresses two key aspects of the program (pre-award panels and contract reviews) it does not note the third key aspect, training. Based on preliminary findings of the reviews, FSS began developing a new online training module for its course on schedule basics. The new module, launched in October 2004, focused on Most Favored Customer pricing. As the quality reviews continue, FSS anticipates adding new training courses and modules.

Finally, FSS notes that it has made a commitment to establishing a culture of quality contracting. Towards this end it has:

- Established the Office of Acquisition Management (11/2003);
- Published FAR 8.4 update incorporating ordering procedures for services and guidance on sole-source orders (7/2004);

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- Initiated the development of a negotiation quality measurement and improvement process (11/2001);
- Established the Acquisition Quality Measurement and Improvement Program (3/2003);
- Implemented a contract quality measure in the individual performance plan for each contracting associate (11/2004);
- Tied senior manager performance plans to remediation of concerns identified (11/2004);
- Established a pricing division in the Information Technology Acquisition Center to oversee review and negotiation of pricing (10/2004);
- Established a nationwide program to regularly document and evaluate contractor performance across over 25 specific contractor requirements (10/2002);
- Conducted customer compliance survey (8/2003, 9/2004);
- Developed on-line and classroom training courses and modules for FSS contracting professionals via FSS Center for Acquisition Excellence (3/2003);
- Established IG Working Group to facilitate preaward audits (12/2001); and
- Significantly increased the number of contracting associates (2001-2004).

SPECIFIC COMMENTS ON THE DRAFT:

Introduction page: First paragraph, first sentence, delete the words "the prices vendors offer their best customers" and substitute the following: "prices offered to commercial customers who purchase in a similar manner as the Government," or words to that effect. Second sentence, delete the words "the best price" and substitute the following: "the price that reflects the manner in which the Government purchases," or words to that effect.

Second paragraph, last sentence, delete the words "best prices" and substitute the following "price that reflects the Government's buying practices," or words to that effect.

See comment 1.

See comment 2.

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See comment 3.

Page 1, First Paragraph of the cover letter to The Honorable Susan M. Collins: Currently there are more than 8 million items on *GSA Advantage!*® including both products and services. In addition, there are over 16,000 MAS contracts. Therefore, GSA recommends revising the last sentence to reflect the current numbers.

See comment 4.

Second paragraph, first sentence, delete the words "most favored customers" and substitute the following: "customers that buy similarly to the Government," or words to that effect. Footnote one should be deleted. Add a sentence at the end of the paragraph which states that "GSA encourages its customer agencies to negotiate further discounts at the time they place an order," or words to that effect.

See comment 5.

Last paragraph, fifth sentence, should be modified by adding the words "who purchase similarly to the Federal Government, after the words: most favored customer's," or words to that effect.

See comment 6.

Page 2, Fourth Paragraph of the cover letter to The Honorable Susan M. Collins: The acquisition center name "Facilities Maintenance & Products Acquisition Center" should read "Center for Facilities Maintenance and Hardware."

See comment 7.

Page 3, Results in Brief: The first paragraph of the "Results in Brief" does not provide the full context for the results of the reviews. The reviews identified weaknesses in the documentation of the files regarding the negotiation of pricing. The weaknesses in the documentation do not mean that FSS did not negotiate and obtain fair and reasonable pricing. Rather the weaknesses indicate that our contracting officers must do a better job in documenting files in support of awards. Also, the first paragraph indicates that the lack of audit support has hampered the ability of GSA to obtain fair and reasonable pricing. GAO points to the reduction of pre-award audits from approximately 125 per year to approximately 21 audits per year. However, the "Results in Brief" do not highlight or indicate that for the last two fiscal years there has been an increase in audit support and the number of audits being performed. FSS and the IG have been working together via a working group to increase the number of audits as well as improve the audit process. FSS has also agreed to provide the IG with \$2 million this fiscal year for additional program support, including increasing the number of audits.

See comment 8.

The second paragraph of the "Results in Brief" indicates that the oversight of the Acquisition Quality Measurement and Improvement Program has been "weak." It

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is premature to reach such a conclusion given that Fiscal Year 2004 was the first year of the review of the entire organization and that the next step in the process will be the issuance of the final report. Based on the results of the final report FSS management is committed to establishing action plans to address the results of the report. These action plans will include, as appropriate, additional training and guidance for contracting associates as well as focused implementation plans to address any issues at the operational level. With regard to the pre-negotiation panels, GSA agrees that reports on the use of the panels should be made to MAS program management and we will revise our policy letter governing the program to require such reports.

See comment 9.

Page 4: The first paragraph should be revised from "Agencies can use a simplified method of acquisition and avoid other procurement methods" to "Agencies can use the MAS program to streamline their acquisitions. . ." This paragraph does not discuss the competitive procedures for placing orders under the MAS program. Federal Acquisition Regulation (FAR) 8.4 establishes the ordering procedures for the MAS program that are designed to both streamline the process while enhancing competition. Further, the Department of Defense has special ordering procedures for the service orders exceeding \$100,000 under the MAS program. In order to put the MAS program in proper context there should be a discussion of the ordering procedures and GSA's e-tools such as e-Buy which further enhance competition at the order level. The prices and terms and conditions established at the contract level provide a framework or starting point from which agencies can leverage their own requirements seeking further price reductions through competition at the order level.

See comment 10.

Page 8: In the first sentence, add the words: "based on the manner the Federal Government buys," or words to that effect.

See comment 11.

Page 11: In the second paragraph, first sentence, add the words: "based on the manner in which the Government purchases," following the words: "most favored customer prices," or words to that effect.

See comment 12.

Page 12, Reviews Showed Effectiveness of Tools Unclear: The discussion of the results of the reviews does not put into context the ongoing nature of the reviews. The review program's goal is to continuously improve contract quality. FSS believes that the organization is accomplishing that goal in a focused and systematic manner. For example, a quality review was done of the Services Acquisition Center in Fiscal Year 2003 which identified areas that needed improvement in the negotiation of contract awards. The Services Acquisition Center developed an implementation plan to improve contract quality

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and as a result the Fiscal Year 2004 quality reviews demonstrated a significant improvement in contract quality.

With regard to the level of documentation of the June 2004 quality reviews, the documentation of the reviews has improved. As a result of feedback from the acquisition centers along with an internal review of the evaluation process, the format and instructions for the reviews were revised to ensure that the results were fully and fairly documented. The fourth quarter reviews in September 2004 reflect the changes in the evaluation of the contract files. Additionally, the final report and the overall evaluation of the contract files will identify weaknesses and areas where improvements are needed as well as any best practices. Finally, this section of the report does not discuss or describe any of the steps that FSS has already taken to address contract quality. A host of information was provided to GAO that demonstrates a proactive effort on the part of FSS to ensure contract quality:

- Information regarding FSS corporate performance measures that include contract quality.
- Information regarding individual appraisal plans for its FSS contracting personnel which include contract quality.
- Information regarding FSS's online course on the negotiation and award of MAS contracts which was made mandatory for all FSS 1102 contracting personnel in April 2004.
- Information regarding several new FSS procurement bulletins to contracting officers highlighting contract negotiation issues.

See comment 13.

Page 13: In the first paragraph, revise the number of additional reviews from 28 to 35. In addition, delete or revise the sentence stating "27 of the 28 contracts was insufficient to clearly establish . . ." Reexamination of the September 2004 consensus reports by FSS revealed that, if used the same standard as in June 2004, the percentage requiring improved pricing documentation would have been about the same.

See comment 14.

Page 13, Use of Pre-Award and Post Award Audits of Negotiation Information has Dramatically Declined: As a matter for clarification, in the schedules context, pre-award audits refer to pricing audits by the IG whereby the commercial pricing information submitted by the vendor is reviewed and validated.

See comment 15.

Page 14, Use of Pre-Award and Post Award Audits of Negotiation Information has Declined Dramatically: The draft report does not address the

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factors that in the past contributed to the reduction in the number of audits. First, FSS moved to longer term contracts resulting in fewer pre-award audits since many of the major contractors already had long term MAS contracts. FSS and the IG are now focusing on conducting audits of these contractors as part of the process for exercising options to extend these existing contracts. The report also states at the bottom of page 14 that "pre-award audits rose slightly to 40 in Fiscal Year 2004." FSS believes that an over 150 percent increase from one fiscal year to the next is a significant change in direction. The goal for this fiscal year is 70 audits. FSS's goal is not an arbitrary increase in the number of audits but a focused and sound audit plan that implements the appropriate number of audits in terms of the dollar value of the contracts audited. The steady increase in the number of audits over the last two fiscal years reflects that goal.

See comment 16.

Page 15: The draft report on page 15 refers to an organizational culture that stresses making award decisions quickly. This statement is used to demonstrate a lack of audits. The report then provides an example of a center with a performance goal of 79 days to award while an audit typically takes 90 days. This does not tell the entire story. FSS has made contract quality a performance measure that balances the cycle time performance measure. In addition, FSS believes that a measure for processing cycle time makes sense for the management oversight and, ultimately, the taxpayer. Cycle time measures the efficiency of the organization. This helps ensure that taxpayer funds are efficiently and effectively managed. At the same time, balancing processing cycle time with quality provides for a balanced scorecard.

GSA believes that the adoption of FAR Part 12 and commercial practices in conjunction with the move to long term contracts were significant factors in the reduction of the number of audits. In any event, FSS and the IG have made significant progress in increasing the number of audits.

See comment 17.

Page 17, Use of Pre-Negotiation Clearance Panels has been Limited: GSA agrees with the observations regarding the use of panels. FSS is amending the policy letter governing the use of the panels to institute a reporting requirement. The reports will be used to assess progress in the effectiveness of negotiation and will be an opportunity to share best practices. With regard to the IT Acquisition Center, the threshold for the use of panels will be lowered to increase the frequency of the panels.

See comment 18.

Page 19, Scope of Quality Reviews Limited Their Effectiveness: The quality reviews were not designed to identify the underlying "causes" for any

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weaknesses in contract file documentation. The quality reviews evaluate and document issues identified in the contract files. FSS management will review the results of the quality reviews, identify any "causes" for any weaknesses and develop action plans to address those weaknesses. This process will address the "causes" by identifying any new training or guidance that is needed as well as making any necessary changes to management and oversight of the program operations.

Footnote 21 states that only three of the seven critical factors of the quality review cover pricing issues. This statement is misleading. The three factors comprehensively cover the price negotiations issues. Further, the other four factors cover appropriate issues such as evaluation of contractor responsibility and small business programs. Finally, as FSS moves into the next stage of implementation, contract pricing negotiations will be the most important factor.

See comment 19.

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RECOMMENDATIONS FOR EXECUTIVE ACTION:

The report recommends that GSA:

1. ensure that pre-award audits are conducted when the threshold is met for both new contract offers and contract extensions;

GSA Response: Agree. FSS and IG continue to work to increase and improve the pre-award audits. The goal for the number of audits this fiscal year is 70.

2. develop guidance to help contracting officers determine when post award audits are needed;

GSA Response: Although GSA believes that current policy guidance is clear, GSA agrees that we will explore what, if any, additional guidance is needed in this area.

3. direct GSA program management to revise the Acquisition Quality Measurement and Improvement Program to measure and report on the performance of the pre-negotiation clearance panels; and

GSA Response: Agree. GSA has already revised and implemented the program operating procedure to require reports on pre-negotiation clearance panels.

4. direct GSA program management to revise the Acquisition Quality Measurement and Improvement Program to broaden the scope of quality review initiative to (1) determine the underlying causes for contracting pricing weaknesses and (2) develop appropriate plans to implement corrective actions.

GSA Response: Agree in principle. The Acquisition Quality Measurement and Improvement Program is in its first year of implementation across FSS as a whole and the process is ongoing. GSA believes that the process already incorporates these recommendations. Upon issuance of the report, FSS will be taking appropriate actions to address any weaknesses. This will involve a discussion and identification of the underlying reasons for any weaknesses. To further supplement the program, GSA plans to convey the critical need for documentation of all contractual actions while continuing to place a strong

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*emphasis on the adequate documentation of contract pricing and analysis,
and negotiation.*

GAO Comments

1. The language in our report is consistent with the language in the General Services Administration Acquisition Manual (GSAM). Specifically, GSAM 538.270 Evaluation of multiple award schedule (MAS) offers states :“(a) The Government will seek to obtain the offeror’s best price (the best price given to the most favored customer). However, the Government recognizes that the terms and conditions of commercial sales vary and there may be legitimate reasons why the best price is not achieved.” Further, GSA states in the supplementary information to its final rule, 62 Fed. Reg. 44,518, 44,519 (August 21, 1997) that; “The pursuit of “most favored customer” pricing as a goal is consistent with commercial practice and totally consistent with the objective of negotiating a fair and reasonable price.”
2. Technical revision has been made.
3. Technical revision has been made.
4. The language in our report is consistent with the language cited in comment 1; however, we added the language that notes GSA’s pricing goals. Also, while GSA encourages its customer agencies to negotiate further discounts at the time they place an order, the focus of our work was on how GSA negotiates MAS contract prices, not on the responsibilities of GSA’s customer agencies.
5. The language in our report is consistent with the language cited in comment 1.
6. Technical revision has been made.
7. Without documentation that establishes clearly that the contract negotiations were conducted using accurate, complete, and current pricing information and adequate price analyses; GSA cannot ensure that negotiation objectives were properly established and the prices were effectively negotiated. Historically, pre-award audits have allowed GSA to avoid hundreds of millions of dollars in overpricing. Between fiscal years 1992 and 1997 the GSA Inspector General averaged about 125 pre-award audits each year and reported a total of nearly \$496 million in savings—an average of nearly \$83 million per year. In August 2001, as pre-award audits continued to decline, the Inspector General reported that contracting officers were not consistently negotiating most favored customer pricing because they often failed to evaluate and quantify differences between commercial pricing and schedule terms and conditions. As discussed in our report,

the Inspector General provided specific examples of overpricing with millions of dollars in potential overpayments by GSA customers. While the number of pre-award audits GSA completed increased from 14 to 40 between fiscal years 2003 and 2004, we do not view this increase as significant—especially given the skyrocketing MAS sales.

8. In fiscal year 2003, GSA was to complete quality reviews of 11 GSA activities, including all 7 of the MAS acquisition centers. However, GSA completed and reported on only one center—the Services Acquisition Center. According to GSA officials, the results of its fiscal year 2004 review would be issued in October 2004. This date slipped several times to December 31, 2004, to January 7, 2005, and now to sometime in February 2005. We believe that better oversight early in the program’s implementation could have helped the program better meet its established milestones.
9. Our review focused on how GSA negotiates most favored customer prices for MAS contracts and assesses the overall effectiveness of these price negotiations. We did not look at how GSA’s customer agencies order items and services from MAS contracts.
10. The language in our report is consistent with the language cited in comment 1.
11. Technical revisions have been made.
12. We support the use of quality reviews and believe they are a good first step to improved MAS contract negotiations, as we noted in our report. However, we also believe that identifying specific causes of documentation deficiencies and the requirement for action plans addressing these causes would increase the effectiveness of GSA’s quality reviews.

GSA asserts that the improvement in contract documentation at the Service Acquisition Center is a direct result of their quality reviews. The evidence we have been provided does not support this assertion. While GSA’s June 2004 quality review of the Service Acquisition Center found that contract documentation had improved since its fiscal year 2003 review, we learned during the course of our review that the Service Acquisition Center began a continuous improvement program about 4 years ago and that one of the Center’s divisions had been developing tools and standardized documents to have an audit trail of the information that was used and how decisions were made in

negotiating the contract. Because the Center's efforts pre-date GSA's quality reviews, it is unclear to what extent the Center's improvement efforts and the reviews had on the documentation improvements.

GAO recognizes that GSA has initiated a number of efforts to better ensure contract quality, and our report identifies those that are relevant to our review. However, because these efforts were recently implemented, we did not assess and cannot comment on their effectiveness.

13. Our findings are based on the 28 contract reviews completed as of September 2004. For these reviews, the GSA reviewers stated that most favored customer pricing was not clearly established for 27. The additional seven reviews and reexaminations were expected in October 2004, they were not completed until February 2005. Therefore, we have no basis to comment on either GSA's additional seven reviews or their reexamination of the September 2004 consensus reports.
14. Our report describes the use of pre-award audits and their conduct by the GSA Inspector General for contract negotiators.
15. As discussed in our report, MAS contracting officials and Inspector General officials identified a number of factors that in the past contributed to the reduction of the number of pre-award audits. These factors include an organizational culture that stresses making contract awards quickly and performance measures that focus on timeliness. The reduction in the number of opportunities for conducting pre-award audits caused by the extension of contract performance period from 1 year—the contract period in the mid-1990s—to 5 years was also cited as a factor. However, despite the 5-year contract period, GSA increased the number of pre-award audits from 14 in fiscal year 2003 to 40 in fiscal year 2004 and plans to complete 70 in fiscal year 2005. Moreover, according to GSA, it received more than 3,000 new MAS contract offers each year, presenting GSA with numerous opportunities for pre-award audits. Therefore, we do not believe that the extension of MAS contracts from 1 to 5 years was a major underlying cause of the dramatic decline in pre-award audits over the last decade.
16. We asked contract negotiators why they did not request pre-award audits on new contract offers, as required by GSA. According to the contract negotiators, the performance goal for awarding a new

contract did not allow enough time for pre-award audits. While we agree that establishing a performance measure to reduce cycle times may be warranted, it must be balanced with other measures of quality, as GSA points out.

We also agree that increasing the number of pre-award audits from 14 to 40 shows progress; however, we do not believe that this increase can be characterized as “significant”—especially when an average of 125 audits were completed annually in the early 1990s and GSA receives more than 3,000 new schedule offers annually.

17. We agree with GSA’s proposed actions.
18. Identifying underlying or “root” causes is essential for correcting process deficiencies. While GSA notes that FSS management intends to identify such causes, we believe GSA missed an opportunity to do so through its formal review. Further, it is unclear how FSS management plans to identify the underlying causes. Regardless, we believe that expending resources to resolve deficiencies without first determining the causes of the deficiencies unnecessarily increases the risk that improvement efforts will not succeed and resources spent will be wasted.
19. The acquisition letter implementing the quality reviews identifies the seven critical factors. While all of these critical factors could involve contracting pricing in some manner, only three factors specifically address pricing.

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